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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

TRADE and industry continued at high levels through the month of May, and while some uncertainty prevails as to the probable trend in the last half of the year, no tangible justification for pessimism has yet appeared. Not everyone is satisfied with the volume or the profitableness of his business, but some of these complaints have to be discounted, as it has been shown time and time again that even in the best of years there is always someone who either is not, or thinks he is not, getting as much business as the rest. It is true that not all lines are showing as uniform improvement as was the case a few months ago, and some industries give definite signs that production has run ahead of consumption. Already this has necessitated some slowing up in various lines, and doubtless further readjustment may occur before the balance is everywhere restored. Buying, however, has been generally conservative, and in view of the absence in most quarters of burdensome stocks, and the promise of continued ease in money, there seems no reason why whatever further readjustment is needed should not take place without undue disturbance. The way in which the Florida boom has quietly flattened out without serious consequences is a reassuring demonstration of the influence of an easy credit situation in facilitating orderly liquidation.

Taking business as a whole the figures show that the country is actively engaged, and what is more, that most people are making money. Despite the handicap of a backward spring and the sagging tendency of commodity prices during most of the period, the volume of checks drawn in payment for goods, and freight carried by the railroads, has continued to exceed that of any previous year. Employment of labor in the manufacturing industries showed the usual seasonal decline after the early spring rise, but remains substantially higher than a year ago at this time, and if allowance is made for the expansion of outdoor industries such as building and farm work it is probably true that demand for labor is the most active since 1923. The maintenance of this high level of production and distribution in the face of declining prices has been one of the unusual features of the situation and seems to be clear evidence of the necessitous character of most of the buying. While rather heavy cancellations of orders have occurred in the textile trades, these are attributed almost entirely to the weather which clogged up the retail outlets for apparel. Taking business generally there has been little evidence of any desire to avoid acceptance of goods contracted for, and lately prices have been steadier.

Business Profits

Indisputable proof that business has been making a good record financially is contained in the excellent showing made by the corporation reports for the first quarter. With relatively few exceptions, the figures show increases over 1925, and while the recent slackening of operations in some industries suggests that second quarter figures may fall somewhat below those of the first quarter, there is prospect of their continuing better than a year ago. In the case of the steel industry, for example, operations have fallen off moderately since the first quarter, but both operations and new orders remain higher than at this time in 1925. Following is a comparison of net profits reported by the leading steel companies for the first quarters of 1925 and 1926.

IRON AND STEEL
Net Profits (Thousands of Dollars)

	First Quarter 1925	First Quarter 1926	Change
U. S. Steel Corp.	21,205	26,075	+
Bethlehem Steel Corp.	4,072	5,866	+
Youngstown Sheet and Tube Co.	3,696	3,805	+
Inland Steel Co.	1,029	1,541	+
Republic Iron and Steel Co.	813	1,322	+
Colorado Fuel and Iron Co.	570	1,121	+
Otis Steel Co.	323(a)	889(a)	+
Superior Steel Corp.	31 def.	152	+
Ludlum Steel Co.	99	100	+
American Steel Foundries	1,389	1,339	—
Gulf States Steel Corp.	396	257	—
Wickwire-Spencer Steel Corp.	175	54	—
Virginia Iron, Coal and Coke Co.	217	10 def.	—

(a) Before depreciation.

The earnings of the automobile companies, taking the industry as a whole, likewise make a fine showing, though individually, it is to be noted, a few of the leading companies did not do so well as a year ago. Particularly impressive, however, was the record of General Motors, showing earnings of nearly $35,000,000, about double those of the first quarter of 1925, and by far the largest ever reported by the corporation in any three months in its history. Following is a table of earnings of the leading motor and accessory companies. With these, as with the steel companies, there seems no reason to anticipate any very marked change in the situation during the second quarter.

MOTORS AND ACCESSORIES
Net Profits (Thousands of Dollars)

	First Quarter 1925	First Quarter 1926	Change
General Motors Corp.	17,811	34,855	+
Fisher Body Corp.	2,307	8,484	+
Nash Motors Co.	3,099	4,138	+
Chrysler Corp.	3,501	4,112	+
Studebaker Corp.	3,606	4,029	+
Packard Motor Car Co.	1,082	3,123	+
Briggs Mfg. Co.	2,389	2,947	+
Mack Trucks, Inc.	1,755	2,316	+
Stewart-Warner Speedometer Corp.	1,304	1,353	+
Hupp Motor Car Corp.	853	1,122	+
Motor Meter Co., Inc.	413	522	+
Pierce-Arrow Motor Car Co.	200	329	+
Peerless Motor Car Corp.	281 def.	206	+
Mullins Body Corp.	104	107	+
Dodge Bros., Inc.	6,357	5,990(b)	—
Hudson Motor Car Co.	3,827	2,746	—
Willys-Overland Co.	3,171	1,234	—
Motor Wheel Corp.	767	578	—
Hayes Wheel Co.	222	149	—
Jordan Motor Car Co.	205	146	—

(b) Before debenture interest and taxes.

Lack of space renders further detailed comparisons of earnings statements impossible, but it is sufficient to say that of 97 other miscellaneous industrial companies which publish quarterly reports and whose figures are available, 73 showed increased earnings over 1925, and many showed earnings in excess even of those of 1923, heretofore the most prosperous year for most companies since the war.

Changing Current in Business

It is in the light of these facts that we may evaluate many of the complaints we have been hearing about "poor business." The truth of the matter is that business normally is a strenuous game, and only in highly abnormal times can everyone make money. It is a constant contest of wits in which the effort is always to produce something a little better and a little more cheaply than anyone else can. As producers, we are continually substituting new processes for old, fashioning new materials that serve our purposes better than the old ones, and generally improving the quality of our output. As consumers, we are ever discarding old wants and taking up with new wants. The automobile has superseded the carriage and bicycle. Growth of radio has affected the sale of other musical instruments. The lumber industry is feeling the expansion of cement and tile and artificial woods. Even the old fashioned icebox is meeting sharp competition from mechanical refrigeration. In the field of distribution the chain store is cutting into the business of the small retailer, and railway efficiency, by assuring prompt deliveries of merchandise, has changed habits of buying. Everywhere, in manufacturing and distribution, the watchword is increased efficiency and economy of costs. Thus business flows on in constantly changing currents, and generally speaking the business man who has discerned and is adapting himself to the direction of flow is making money, while he who has got into the eddy is not.

At few periods in our history has the widespread state of well being of most classes appeared to offer so favorable a basis for the profitable conduct of business. Labor is fully employed and better paid than ever before. The comparative stability of living costs is conserving the purchasing power of fixed incomes. Agriculture is coming back. With these foundations to build on, and fortified by easy money, success in most cases seems to be largely a question of management.

Building and Manufacturing

Reviewing briefly the position of leading industries one finds iron and steel production somewhat reduced from the high levels of the early months of the year, but with the Steel Corporation still operating around 90 per cent of capacity and the independents ranging down to 80 per cent. Prices likewise eased further early in May, while unfilled orders of the Steel Corporation at the end of April dropped off a further 500,000 tons to a point 1,166,000 tons below the level of last December. As this drop, however, was due in part to a high rate of specification on old orders, it suggests that steel is not accumulating but is going directly into consumption. Most recent reports have indicated advances in prices of bars and pipe, and a slight gain in steel buying generally, the latter being attributed in part to railroad purchases which appear to have offset lessened demand from the automobile industry.

Automobiles

Among the principal steel consuming industries, automobile production apparently has passed the seasonal peak, and a gradual slowing down of operations is generally expected. On the whole the industry has had a very good spring season, though some com-

panies have done considerably better than others. During the past month developments have included both dividend increases and some price reductions. Commenting on conditions in the trade, Automotive Industries under date of May 20 sizes up the situation as follows:

From now on output will be closely dependent upon the state of the retail market and stocks in dealers' hands. So far the Spring selling season has been up to expectations in total volume, but not all manufacturers are sharing equally in the good market. The leaders in public popularity are selling at record levels.

Manufacturing conditions on the whole are extremely favorable. Raw material costs continue to decline, while prices thus far have been fairly stable. Rumors of price cuts are persistent, but this is a more or less permanent condition in the industry. In line with the seasonal trend, parts and accessories are being sold in larger quantities, even tires showing Spring stimulation. Trucks and busses are still experiencing a record demand, while the export market is better than ever.

Railroad Buying

With a slowing down probable in the automobile industry which may or may not carry the year's final production figures below 1925, the outlook for railroad equipment buying continues favorable. Based on expenditures authorized up to April 1, the Bureau of Railway Economics calculates the probable 1926 expenditures of Class I railways at between $750,000,000 and $800,000,000, which compares with actual expenditures in previous years as follows:

1922	$ 429,273,000
1923	1,059,149,000
1924	874,743,000
1925	754,000,000

While no figures are available separating the probable expenditures for the entire year by types of equipment, the following table is interesting as showing the purposes for which expenditures were made during the first quarter. Although the outlay for freight cars fell off heavily compared with the first quarter last year, that for other types of equipment increased, with the gains particularly marked in the case of locomotives, additional track, and miscellaneous improvements.

	First Quarter 1925	First Quarter 1926
Locomotives	$ 12,700,000	$ 18,300,000
Freight-train cars	73,300,000	44,500,000
Passenger-train cars	9,500,000	9,000,000
Other equipment	2,200,000	3,100,000
Total equipment	$ 97,700,000	$ 74,900,000
Additional track	21,500,000	30,900,000
Heavier rail	5,600,000	7,200,000
Additional ballast	1,400,000	1,800,000
Shops and engine houses	7,300,000	8,200,000
All other	35,800,000	42,700,000
Total road & struct.	$ 71,600,000	$ 90,800,000
Grand Total	$169,300,000	$165,700,000

What these figures mean to the steel industry may be inferred from the fact that the railways are the largest single purchasers of steel, having taken 25 per cent of the total steel output in 1925. Incidentally it may also be said that the railways took 20 per cent of the entire lumber output for last year, and their purchases are a large factor in the market of a wide variety of other materials.

Building

Prospects for building construction likewise continue good, though it may be that the pace is moderating somewhat. April contract awards, for example, were at about the same level as a year ago, following large increases in previous months, while permits issued, which precede and so sometimes forecast the movement of contracts, showed a loss of 8 per cent from a year ago. This still leaves building projects at high levels, however, and with costs fairly well stabilized and interest rates low no one expects any considerable downturn within the year at least.

Textiles

The textiles, on the other hand, still have much to contend with. Following consumption in March higher than ever before for that month, cotton mills used 57,377 less bales of lint cotton and linters in April, and further slowing down of operations is reported in May. The bad weather apparently has been partly to blame for this; also uncertainty regarding the size of the new cotton crop which slows up the goods market. More fundamentally, however, a difficulty seems to be that the industry apparently has a greater productive capacity than the market requires.

The wool goods trade continues dull, and raw wool also quiet, with trading in the latter restricted early in the month by the British strike which closed down the London auctions. Manufacturers are still buying sparingly, but in view of the large decline that prices have undergone since the first of the year and the firmer tendencies of late in foreign markets the feeling is growing that wool prices have got down to levels that give promise of greater stability.

Silk goods production is still curtailed, business having been affected very greatly by the weather. April deliveries however of raw silk to mills were the lowest in sixteen months, but exceeded imports by 6,000 bales, bringing stock left in warehouse May 1 to the lowest point since August, 1924.

Agricultural Conditions

The States west of the Mississippi have a fine Winter wheat crop, though owing to poor condition in some of the more eastern States the total crop was estimated by the government on May 1 at 548,908,000 bushels, a total slightly below the ten year average, though 150,422,000 bushels greater than last year's

crop. Spring wheat condition is rather less favorable than last year due to late seeding and deficiency in moisture. While there is still plenty of opportunity for a good crop to develop despite the late start, liberal rains are needed to relieve the situation and prevent deterioration. Private estimates to date place Spring wheat at between 225 and 240 million bushels.

Corn has been largely seeded but has gone in under poor soil conditions and in some sections has made a late start. Acreage may show some increase, due to lateness of the season which has prevented the seeding of oats and may have caused some replacement of backward wheat areas in corn. As against this, however, is the danger to the crop due to late planting. Carryover of old corn is heavy while that of wheat promises to be the smallest for many years at least.

The livestock situation continues the brightest spot in the agricultural horizon. Hogs in May got up to a new high for over a year, averaging $14 at the peak, while fat lambs equalled the top for the season. With the present spread between corn and hogs, the hog producer is in splendid position, and that corn is riding to market by the livestock route is shown by hog weights running close to 250 pounds average, or more than 16 pounds heavier than last year. With hog producers tending to increase their stock, and small grains behind schedule, it looks as though the probable volume of feedstuffs may be relatively less excessive this year than last.

As regards the beef cattle industry, the deflation period is now a thing of the past, and the outlook is regarded with distinct optimism. In this connection we cannot do better than quote from a letter on the cattle industry recently received from Mr. John D. Finnigan, an experienced cattleman, who is associated in the management of one of the largest ranches in the State of Texas. Mr. Finnigan writes in part as follows:

As a natural consequence of the high prices created by War demands and the reaction resulting from the general depression of business, the cattle industry was forced to go through one of the most trying ordeals in its history, and the recovery of the industry was slow; however, the outlook for its future can well be expressed in saying "the slate has been cleaned" by forced liquidations and, as a consequence, the business is now on a firm basis and prices show an upward trend. The demand for beef is, apparently, as good as it has ever been and prices are now on a sound footing.

Results indicate the number of beef cattle in this country to be decreasing some six million head from the high point of the liquidation period. It is probable that even though high prices should prevail and every incentive encourage increased production, it would require at least six or seven years to restock the country to the point of over-production. The greatest shortage in cattle for the future will be in really well bred steers of all ages, and of aged steers of even low quality; this, of course, has been brought about by forced liquidation of many fine breeding herds, which have required years to develop, and the vast territory of suitable pastures, formerly devoted to breeding herds, particularly in the Pan-Handle and West Texas, which are now in cultivation or being fitted for agricultural purposes. As a matter of fact, there is a limited area left for the breeding and development of fine cattle.

During this same period, thousands of common East Texas calves, which were formerly allowed to grow into aged steers, have been shipped direct to market in order to provide funds to meet obligations and pay operating expenses.

Range conditions in this State are better than they have been for years, both from the standpoint of adequate rainfall, lightly stocked pastures, and the systematic elimination of the tick, which removes restrictions and creates demand, as well as eliminates a heavy expense on the part of the ranchman.

During the period of inflated prices, many rushed into the cattle business without any previous practical experience and a majority of these have been eliminated through failure. It takes years of practical experience to develop a real cow-man.

The future of the cattle industry looks very favorable, and there is at least a period of some years of prosperity ahead.

Cotton

Cotton prices eased further during the past month, spot in New York touching a new low of 18.70 cents on May 17. While the weather has been backward, and considerable replanting has been necessary in some sections, there is no indication that the acreage will fall substantially below that of last year when it was the largest on record and produced the largest outturn of lint and linters in the history of the South.

Just how much cotton will actually be produced this year on this acreage cannot now be foretold, that depending largely on the weather and the boll weevil. Meantime it is pretty certain that the market will have to figure on a substantial increase in the carryover of cotton in this country at the end of the season. On May 21 unsold stocks amounted to around 5,700,000 bales, compared with 2,800,000 a year ago. With exports since August 1 running some 340,000 bales behind last year, and domestic mill consumption falling off, the outlook for materially narrowing this margin does not appear very promising. Last year's carryover was 1,600,000 bales, and that of 1924-25 was 1,555,000 bales.

European Affairs

The outstanding event in Europe in the past month has been the general strike in Great Britain and the outcome of that has done more to reestablish general confidence than anything which has happened since the war. It has disposed of whatever fears there were that Bolshevism had secured a substantial foothold in England or western Europe. The Soviet authorities in Russia hailed the strike as the beginning of a revolution after their own pattern and telegraphed a contribution of money in its support but the contribution was declined. The Trades Unions of England were making a fight—an ill advised one as they soon concluded—to enforce the wage demands of the miners' union, but without any intention of overthrowing the political institutions of the

country. They had no desire to take over the functions of government or revolutionize the industrial system, and when they saw where their policy was leading them they abandoned it.

The truth is that the Soviet authorities were correct in their conception of the issue. The government was bound to endeavor to restore the essential services upon which the community life depended, even to the care of the strikers' families, and if the general strike had triumphed that triumph would have signified that a new government, organized by a comparatively small part of the population, had taken the place of the old. It is evident that an organization which is able to paralyze the industries of a country and prevent people from earning a living or obtaining a supply of the necessaries of life will wield a power greater than that of the constitutional authorities and that two such rivals cannot exist at the same time.

The men composing the Trades Union Council were too conservative for the course they had started upon. Less than two years ago the Labor party was the governing party in Great Britain and several members of the Council were Cabinet ministers, regularly invested with the authority of the State. They only have to get a majority of the voters with them to become the governing party again. Why should they as representatives of the working masses of England wish to carry on a struggle against the lawful parliamentary government which if continued to the bitter end must lead to rebellion and civil war? These men saw they were on the wrong track, and that they did see it and had the wisdom to act accordingly is one of the best signs of the times.

Of course their action will not end revolutionary agitation, for there always will be extremists. It probably will intensify the division between conservative and radical elements in the Labor ranks, but in view of the manner in which the former completely dominated the management of the strike there is little reason to doubt that it will have its support of the mass of British workmen. On the continent Bolshevism has exhausted itself everywhere except in Russia, and is on the defensive there against the spirit of private enterprise, which is able to beat out the state-managed industries wherever it has a chance.

The One Big Union Idea

The strike was an experiment in coercion such as the hotheads and revolutionaries have long wanted. The one big union idea has had a great fascination for labor leaders of a certain type, and they are not the only people who overrate the powers of organization. The truth is that organization can do a great deal if working in harmony with economic principles, and very little otherwise. The best illustration of useful organization is the modern industrial system as a whole, with the voluntary division of labor by which some men become coal miners, others farmers, shoemakers, machinists, railroad employees, etc., and the entire population is distributed among the various occupations. This is a great constructive organization which makes everybody a specialist in some line, and thus develops skill, promotes research, increases production, and raises the standard of living. But in making us all specialists it creates a mutually dependent system in which good faith and a spirit of fair play is fundamentally necessary. Certain industrial groups have greater bargaining power than others, because their services cannot be even temporarily dispensed with, but they are not justified in using this power against the other groups. There is a natural basis for valuing the various services to each other, and that is the basis which will distribute the population in the occupations as needed. Relative wages and prices accomplish this in a simple and automatic manner. If too many people get into one kind of work the pay will decline, and if more are wanted in any occupation the pay will rise. No autocratic system of organizing industry or of fixing wages or prices can ever rival the efficiency and fairness with which economic forces perform the task. The general strike is a blind and violent attempt by sheer force to substitute arbitrary wage fixing in a few favored industries at the expense of the other industries.

The Element of Profit

The theory of the general strike is that employers can be made to yield up enough out of profits to accomplish a general improvement in the condition of the workers. It was said in England by one of the radical labor spokesmen at the beginning of the strike that the time had come when everybody should have a decent living, and that no longer should there be dire poverty in the homes of the workers and luxury for a comparatively small and privileged class. As an abstract proposition that sentiment would be unanimously approved, but it has no practical application in industry. The profits of industry are not won at the expense of the wage earners, for without organization and leadership in industry the results would be meagre in comparison with what they are. Moreover, profits are a small figure in the aggregate industrial turnover, although immensely important as a stimulus to enterprise and activity, and as supplying the means for industrial development. They are indispensable for the latter purpose if no other.

The adventure in state industries made by the State of North Dakota was prompted by

mistaken ideas of the profits of private industry and the practicability of state operations. The latest audit of the North Dakota State flour mill enterprise shows a loss since operations began, including interest on the debt incurred for that purpose, of $968,634.

A recent speech by Stalin, one of the leaders of the Soviet organization, delivered in Leningrad, contained a reference to the troubles of that organization. A report which is doubtless authentic says:

> Stalin further launched a vigorous attack against "the bureaucratic inventions" of the State Planning organizations, "the criminal squandering of public money by responsible workers," the "inflated staffs of Government and cooperative institutions, the disgraceful bacchanalia of flinging millions of roubles of public money on jubilees and festivals, the enormous overhead charges on all business transactions." Communists, said Stalin, were worse in that respect than non-party men, because they "were apt to treat the State as a kind of family property," and "an orgy of merry robbery" was going on unmolested throughout the country. "Such happy-go-lucky robbers could be counted by the thousand," and the worst of it was, they were looked upon as "smart fellows," instead of being made the subject of public opprobrium.
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> Nor were the workers spared by Stalin's scathing criticism. The "irregular 'days off' were becoming a scourge; hundreds of thousands of working days were lost in the factories owing to slackness and absenteeism. No real progress or increase of wages was possible unless a ruthless fight were put up for labour discipline and increased output."

The British Coal Situation

The British coal miners have been looking to state ownership and operation for relief from their troubles, but the mining industry has been working on a profit sharing basis for several years. Under the last agreement it was provided that after the expenses other than wages had been paid the proceeds in the several mining districts should be pooled and divided, the miners to have 88 per cent and the operators 12 per cent, subject, however, to the further provision that if the share coming to the miners should fall below a certain minimum wage it should be brought up to that rate by reducing the operators' share. The system broke down because in a majority of the districts this minimum wage provision was taking all of the net earnings, leaving the operators facing a loss. The government last August averted a suspension of operations by agreeing to pay a subsidy for nine months while the situation was considered.

The position of the miners has been that they are entitled to a "living wage," which they have interpreted as no less than that provided by the last agreement. The fact that the coal cannot be sold for enough to pay that wage, and that a considerable portion must find a market abroad, does not in their opinion afford a valid reason for their accepting a reduction. They apparently regard it as up to someone else to solve the industry's problem, which is a view very similar to that which has considerable currency among corn producers in this country. The objection to it is that every industry has an equal claim to be taken care of, and that at last the only real remedy is in the readjustments that are necessary to restore the equilibrium that has been disturbed. Once the government enters upon the task of general wage and price regulation there is no stopping point short of complete management of industry with state regulation of production, and state distribution of the population in the industries.

A considerable share of the coal production of Great Britain could go on under the present competitive conditions and even without wage reductions, but the miners have demanded a national agreement upon terms which will permit all districts to operate.

The fundamental trouble is that the mine-capacity of the world at present is in excess of the consumption demand. The subsidy, which cost the British Treasury $100,000,000, satisfied the British miners and maintained operations, but the effect was to intensify competition abroad, and German coal was displaced. The German Chancellor, or Prime Minister, Herr Luther, in an address to the German Trade Congress at Berlin on April 28 stated that according to a calculation he had made the world's productive capacity was at least 240,000,000 tons in excess of present consumption, not counting the increased production of lignite. He said that the British subsidy had affected German prices and German production and that both countries had been wasting the national substance. He welcomed the news that the British subsidy would be discontinued. Continuing, he said:

> As the result of this British policy of a State subsidy the number of workmen employed in the Ruhr coalfields has fallen from 430,000 in July, 1925, to 377,000 in March, 1926. It is still necessary to institute holiday shifts there in a very large degree. This shows how directly the ability of the German miner to earn a living is influenced by the British policy of subsidizing the coal industry.

This shows how an attempt to baffle economic forces causes them to break out in new places. The subsidy evidently is not a satisfactory remedy. If great Britain should persist in it, Germany probably would be forced to adopt it, to compel its abandonment. If all attempts at control were abandoned prices would decline to a point which would close up the high-cost mines, wherever they may be located, until supply and demand were in balance at a price-level which would put the industry on a self supporting basis. The lower prices would benefit industry generally and tend to increase consumption. It is true that the miners who have been working in mines which cannot operate without a subsidy would be out of work, but the aggregate number out of work would be no greater than under the subsidy system. There can be only employ-

ment enough to supply the coal that can be sold.

Necessity for Readjustments

Doubtless it is necessary to give aid in some manner to miners who cannot have work, as to others similarly situated. Humanitarian considerations have their rightful and commanding weight, but it is important that aid shall be given in ways which obviously are for relief purposes only, and which interfere as little as may be with normal industry. It must be borne in mind that the world is going through a necessary process of readjustment, which in the end will make conditions better for all, and that rigid theories about wages and prices delay the process. The "living wage" is subject to many interpretations. Actual wages differ over the countries of Europe, being higher in England than anywhere else, although much lower there than in the United States. However, where the general scale of wages is lower there is some compensation in the fact that the cost of living is lower, so that net conditions are not so different as might appear.

The restoration of British currency to par with gold last year has been blamed for raising the price of British products to foreign buyers, coal with the rest. On the other hand, the influence of that act was to lower the cost of all British imports, including food and the raw materials of industry, which was beneficial to British labor. It would seem that the latter circumstance might be considered a factor in the wage question, but it has been scarcely mentioned. Apparently a little more flexibility in the industrial system would enable these adjustments—which to a great extent prove mutually compensatory—to be more readily made.

General Conditions in Europe

Conditions in Europe are confused and compared with general expectations a year ago disappointing, but not critical in the sense in which they have been in past years since the war. Social discontent is no longer a menacing factor and national animosities are not so obtrusive and threatening. Treaties for the promotion of trade are being negotiated, the Locarno treaties are a general expression of the desire for peace, and the general trend is toward more settled conditions. A plot to restore the imperial dynasty is said to have been discovered in Germany and the Luther ministry has been suddenly defeated and forced out on an insignificant issue, but it is safe to say that the great body of the German people are chiefly interested in building up their industries and trade. Poland has had a revolution and there have been upheavals in the Balkans, but politically Europe is quieting down.

The financial, budgetary, and industrial problems are not new or fundamentally worse than a year ago, but not as much progress has been made with them as was hoped for then. The efforts of Belgium to stabilize her currency have met with temporary defeat, and although France has substantially improved her budgetary situation the huge floating debt created for the work of reconstruction is a serious embarrassment to the Treasury and to the task of currency stabilization. The Italian lira, which for a time maintained a steady position, has suffered a sharp decline in the past month, although apparently there has been no change in the economic conditions of the country. These currencies react upon each other and are affected by speculative operations. In Austria, Hungary, Czecho-Slovakia, and Germany the reorganized currency systems hold firm, Spanish pesetas have gotten back to the highest since 1923, and Switzerland has been an island of stability all of the time.

Although unemployment figures in Germany have been only slightly reduced, the trend of developments in that country is favorable. Savings are accumulating and a remarkable record of domestic security flotations was made in April. Thirty-six joint stock companies announced increases in their share capital in that month, which certainly indicates confidence in the future. The statistics of foreign trade have shown an excess of exports over imports every month since and including last December. Governmental revenues are regularly exceeding expenditures and the last revenue bill put into effect made substantial reductions in taxation. Thus, although German business has been under a great strain in the past year, the period of strain was inevitable and real progress has been made.

The trade situation in Great Britain was showing signs of improvement before the strike, unemployment figures being decidedly below those of a year ago or any time in 1925. In view of the depressed condition of certain great industries, notably iron and steel, coal, ship building, and cotton goods, general trade in Great Britain made a reasonably good showing. The big department stores had a profitable trade, and company reports generally showed good results. Certainly any visitor who expected to find grass growing in the streets of London or any of the chief cities was disillusioned. Although the net imports of the country were larger than in 1924, government authorities have calculated that the country had a balance of income available for investment abroad of about £28,000,000 sterling, or approximately $140,000,000. There is general confidence that the balance is on the safe side, and that with a general revival of world trade the country will make as good a showing as ever. The Chancellor of the Exchequer had budgeted for the equivalent of $250,000,000 for the sinking fund in the fiscal year ending

March 31, 1926, but the coal subsidy took about $70,000,000 of it. The estimates for the current year call for £60,000,000, or about $300,000,000, and steady debt reduction continues the settled policy of the British government.

Crops in Europe

The Spring season in Europe has been backward, and the crops are needing sunshine. June may very much improve conditions, but at this time the outlook is not particularly good. Reports from Russia say that the ground froze up last Fall before snow came, and that there may be a lack of moisture in the soil, which is the condition usually responsible for low yields. It is too early for definite prospects.

Money and Banking

The money market has moved along on about an even keel in May, with no pronounced tendencies in either direction. Supplies of funds have been generally ample, and demands moderate.

Accompanying greater stability in the stock market the liquidation of brokers' loans at New York has been considerably less rapid than in recent months. According to figures reported by the New York City banks the totals recovered somewhat during the early part of the month, and while by May 19 they had again dropped off to a new low point for the year the decrease compared with the month previous amounted to less than $60,000,000 compared with over $200,000,000 in the period from March 24 to April 21, and over $400,000,000 in the period from February 24 to March 24. Taking the entire period covering the greater part of the stock market decline from the middle of February to May 19, the decrease in brokers' borrowings totals up to over $700,000,000. That this does not imply, however, a corresponding reduction in the total volume of securities carried on credit is evidenced from the fact that total loans secured by stocks and bonds reported by the principal banks in leading cities (and which include brokers' loans) show a decrease of only about $200,000,000 in the same period. From this it would seem that many persons have taken up their brokerage lines by borrowing direct from their banks.

Indications, however, that the stock market liquidation of the past few months has diverted funds into the bond market are shown by an increase in bank investments in securities. While collateral loans of the reporting banks at the latest available date, May 19, were down from the levels of early months of the year, investments of these banks on that date touched the year's high level at $5,699,000,000, up over $264,000,000 since the January low point, the increase being due chiefly to increased holdings of securities other than United States Government bonds.

Commercial demand for funds has been well sustained, as shown by a further increase in commercial loans of these banks to levels on May 5 and May 12 somewhat higher than at any previous time this year. This reflects the prolongation of commercial demands somewhat beyond the usual seasonal peak which is generally reached in April. Although there was some falling off in these loans in the week of May 19 the total remains some $350,000,000 higher than at this time a year ago. Apparently these is little basis for any assumption that business requirements for credit are falling off.

Money Rates

Referring specifically to money rates, call money has averaged around 3¾-4 per cent, with occasional recessions or advances from these levels. Time money has also been easy, rates for 60-90 day loans generally ruling 4 per cent, and some money has been reported placed for 9 months at 4¼ per cent. Commercial paper is generally quoted 4 per cent, with extra good names occasionally going at 3¾ per cent, and names less well known at 4¼ per cent. Bank acceptances, on the other hand, were slightly firmer, bid and offer rates moving up ¼ to 3½-3⅜ per cent for 90-day maturities.

With stock market requirements reduced and seasonal commercial requirements probably over the peak, continued easy money seems in prospect until the fall, when crop moving and fall trade may bring about some firming. Prior to the Federal Reserve System seasonal commercial requirements moved in well defined waves, rates falling after the completion of the Christmas trade at the first of the year, rising to a spring peak around March and April with spring planting and trade activity, thereafter easing through the late spring and summer, and finally recovering sharply in the autumn to the highest point of the year. While these movements have been greatly modified by the Federal Reserve Banks, they have not been completely eliminated.

Federal Reserve Credit

At the Federal Reserve Banks there was a further increase during May of $6,000,000 in their holdings of Government Securities to $395,000,000, or $87,000,000 above the low point of the year reached March 24th. Holdings of bills bought in the open market were also higher, but member bank re-discounts fell off further to the lowest level since January, ex-

cepting only a brief period after heavy Government disbursements at the middle of April. Combined holdings of discounts and investments of the Reserve banks remained somewhat above the low levels touched in April.

The Bond Market

After several months of unusual activity the Bond Market settled down during May to a more normal pace, particularly as regards the volume of new offerings. Among the contributing factors were the uncertainties arising out of the British industrial crisis, the political disturbances in Poland, and the disinclination on the part of some investors to make heavy commitments at present levels. While it cannot be said that bond prices are low, neither is it true that they are abnormally high. Doubtless many investors who hesitate to enter the market are being deterred by comparisons of today's prices with those prevailing during the abnormal years immediately following the war. Any long range comparison shows that present levels are considerably below the averages for many long periods of time. There seems to be a growing conviction on the part of most investors that there is nothing to be gained from a waiting policy, as the chances seem far better for a continuance of present prices, or even for an advance, than for any substantial recession.

Bond prices during the month continued moderately upward, the averages being carried into new high ground for the year and many individual issues again breaking through their previous highs. The Dow Jones average for forty listed Domestic corporate issues (10 high grade rails, 10 second grade rails, 10 industrials and 10 public utilities) on May 25th was 95.36 as compared with 95.09 on April 24th and with 93.11 on May 25th a year ago. Not only did the composite averages rise slightly but individual averages for two of the groups, the second grade rails and the public utilities, approached their 1917 high levels. The upward movement in rails came largely as a result of the improved showing in railway operation, and that in public utilities from broader and increased confidence in the industry.

United States Government Bonds

United States Government issues were only moderately active during the month, prices being maintained on an even keel. While the institutional demand continues in fair volume, there is a growing evidence of liquidation by individual holders, particularly of the Liberty issues, which lose part of their tax exemption at the mid-year. After July 2nd the income from only $5.000 in the aggregate of Liberty 4s, 4¼s and 3¾s held by an individual will be exempt from Federal surtaxes, as against $55,000 aggregate holdings exempt at present. Obviously, those individual investors who are subject to heavy surtaxes will improve their income position by shifting to fully tax exempt municipals. Both the increase in payments to the United States under war debt settlements with European nations and reduction in Government expenditures through the economy program of the present Administration, are having a tendency to accelerate the retirement of our national debt. The availability of increasing funds for this purpose should not only lead to a smaller volume of new refunding Treasury issues but should also furnish continuing support to outstanding issues in the market.

New Municipal Offerings

While the level of prices for high grade Municipals is slightly lower than that prevailing a year ago, the general tendency is upward and the opinion apparently prevails among many municipal borrowers that the present is a good time to meet their requirements for funds. If the $75,000,000 issue of City of New York Bonds offered earlier in the year is excepted, the volume of new issues offered during the month of May exceeds that of any other month this year. Among the notable new issues were: $22,088,000 City of Detroit Bonds; $18,822,000 City of Baltimore Bonds; $10,082,000 Westchester County, New York, Bonds; $4,395,000 City of Boston Bonds; $4,236,000 Jersey City Bonds. There were also scattered issues for smaller amounts including, among others, offerings from Minneapolis, Minnesota; Greensboro, North Carolina; Grand Rapids, Michigan; and Milwaukee County, Wisconsin. It is too much to expect that such a large volume of new issues coming on the market in so short a time would be immediately absorbed, but reports from dealers indicate that the bonds are moving off satisfactorily with no evidence of market congestion anywhere. With few new issues of substantial size in immediate prospect it appears that a coming breathing spell will give the market adequate opportunity for easy absorption.

Utilities Continue Strong

Final ratification of a Bill permitting Massachusetts savings banks to invest in the bonds of certain public utility companies has opened a field capable of absorbing about $250,000,000 of suitable securities. Although the new Act does not go into effect until July 1, dealers are already combing the market for issues which in their opinion will meet the legal requirements. As a result, the prices of such bonds have moved upward. The official list is now being prepared by the State Banking Depart-

ment but will not be ready for some weeks. In the meantime, transactions which are being made in anticipation of acceptability have a slight speculative tinge. The movement toward acceptance of high grade public utility bonds for savings bank investment is a growing one and the passage of this measure by the State of Massachusetts emphasizes the strong position of the public utility industry.

The most important issue of public utility bonds offered during the month was the $40,000,000 of New England Telephone and Telegraph Company's First Mortgage 4½s of 1961, offered on a 4.80% basis. These bonds are legal investment for savings banks in Massachusetts, Rhode Island, Maine, Vermont and Connecticut, and ordinarily would have had a particularly strong appeal for Massachusetts savings banks but the Law of that State is such as to limit savings banks to an investment of not over 2% of their deposits in telephone bonds. Inasmuch as most Massachusetts banks have already reached this limit, they were unable to place many orders for the new issue. The bonds were of broad appeal and original subscriptions were several times the total amount of the issue.

The Brazilian Loan

The offering and sale of $35,000,000 United States of Brazil 6½% External Bonds was the month's most important development in the foreign field. The bonds are due on October 1st, 1957, and were offered at 90 and interest to yield over 7.30 %. The issue is payable either in American dollars or in pounds sterling and the bonds proved quite as attractive to foreign investors as to investors in this country. In addition to being a direct obligation of the United States of Brazil, the bonds are secured specifically by first charge on government receipts from income and invoice taxes and by a charge on import duties and consumption taxes subject to charges of certain previous loans. The tax revenues against which the 6½% bonds are a first charge amounted to $14,377,000 in 1925 and, according to budget estimates, will exceed $20,000,000 in the current year. The total service charge on this $35,000,000 loan amounts to $2,625,000 per year, including interest and amortization. Revenues against which these charges are a first lien will therefore run around seven and one-half times such charges.

The Sugar Situation

The sugar industry, from the standpoint both of the producer and refiner, has been passing through a very trying period. Refiners were enabled to make a little money last year, as sugar prices, while low, were somewhat steadier than in preceding years, and as the refiner's business is buying, refining and selling sugar he is affected more by price instability than by whether the price itself is high or low. For the producer, however, who for more than a year has seen sugar selling below cost of production, the situation has been particularly distressing and has caused much hardship and loss to most all engaged in that end of the industry.

It is axiomatic, however, that no essential commodity can sell indefinitely below costs of production. Temporarily the balance between supply and demand may be disturbed and prices abnormally advanced or depressed, but all the time forces are at work to restore the balance. Influenced by price, production and consumption are stimulated or curtailed, as the case may be, until the maladjustment is corrected at a level remunerative enough to stimulate the highest output that is consistent with the willingness and ability of consumers to buy at the price. As was pointed out in our last monthly letter, the average price of Cuban raw sugar has not been below 2½ cents per pound (cost and freight) during any of the last 12 years prior to the current crop; in but 3 years of such 12 year period has the average price been below 3 cents; and in 7 years of such period the average price has been in excess of 4 cents. The long depression of the past year has set in motion the usual corrective forces and there is reason to believe that we are working gradually towards a more normal market. With consumption rapidly increasing and prospective production for this year now substantially reduced from the first estimates, it seems apparent that prices have fully discounted the unfavorable elements in the situation and that higher prices are warranted. Reflecting the strengthened statistical position, raw sugars have advanced from a low of $2\frac{5}{32}$ cents in March to $2\frac{7}{16}$ cents by the end of May, while granulated is up from 5.10 cents to 5.70 cents, the highest in more than a year.

Fundamental Causes of Difficulty

Fundamentally the difficulties in the industry date back to the war, which curtailed beet sugar production in Europe and greatly stimulated sugar output in other parts of the world, particularly Cuba. With the recovery therefore of beet sugar production after the war, the world found itself with a large capacity for excess production. Under a system of free trade in sugar, Cuba as a low cost producer could doubtless have held her place in the world's markets to the partial exclusion at least of the beet industry. Because trade in sugar, however, is not free, but is restricted on almost every hand by tariff walls, the burden of excess production has fallen with particular weight upon Cuba, which must rely upon exports for the disposal of so large a part of the crop.

The facts of sugar production for the United States field, Cuba, Europe, and for the world given in the following table based on figures of Willett & Gray show clearly the effect on world supplies of the Cuban expansion culminating in the enormous crop of 1924-25 combined with the come-back of the European output.

(In tons of 2,240 Pounds)

Year	U. S. & Islands	Cuba	Europe	World
1912-13........	1,143,928	2,428,537	8,282,623	18,208,221
1913-14........	1,382,844	2,597,732	7,967,969	18,436,478
1914-15........	1,343,000	2,592,667	7,646,540	18,484,889
1915-16........	1,431,906	3,007,915	5,454,703	16,879,538
1916-17........	2,245,090	3,023,720	5,025,787	17,098,612
1917-18........	2,048,357	3,446,083	4,321,145	17,380,831
1918-19........	2,029,842	3,971,776	3,185,811	15,797,460
1919-20........	1,925,022	3,730,077	2,589,923	15,495,142
1920-21........	2,323,325	3,936,040	3,683,393	16,629,802
1921-22........	2,408,655	3,996,387	3,983,960	17,621,558
1922-23........	1,962,509	3,602,910	4,574,325	18,153,256
1923-24........	2,332,799	4,066,642	5,057,761	20,109,308
1924-25........	2,924,015	5,125,970	7,077,791	23,604,203

Outlook for Production

On top of the heavy Cuban crop of 1924-25 the crop of this year in Cuba promised a further increase of 4 per cent to about 5,330,000 tons, a new high record and a figure which indicated the probability of a further large increase in the carry-over at the end of the year. Faced thus with the prospect of continued over-production the Cuban Government at the instigation of some of the sugar producers passed in April a crop curtailment bill which was signed on May 3 by President Machado. This bill empowers the President to decree each year hereafter the date when grindings may begin on the new crop and in addition provides for a cut of 10 per cent in the grindings from the current crop, this article to be extended if necessary to avoid overproduction to the crops of 1926-27 and 1927-28. In determining the amount to be ground from the current crop 90 per cent of the average of the crop estimates of three leading authorities was taken, which figured out to about 4,759,000 tons. As some of the mills, however, had already exceeded their quota when the law went into effect and were therefore exempted from its provisions, it is generally expected that the actual amount will turn out closer to 4,900,000 tons, a figure still over 400,000 tons smaller than was looked for a few months ago.

Moreover, such estimates as are available on 1926-27 crops indicate the probability that the totals will be smaller than this year. Java is expected to show a decline of 270,000 tons, Australia of 72,000 tons, Argentine of 20,000 tons, and Mauritius of 32,000 tons against increases of 80,000 tons for England and 7,000 tons for Natal, making a net decrease of about 300,000 tons. While of course no estimates of crop yield are yet available for continental Europe, the acreage planted is smaller than last year, excluding Russia, where reports are conflicting and whose production in any event will probably all be used in domestic consumption. Of particular significance is the fact that the principal exporting country, Czecho-Slovakia, has a decline of between 10 and 16 per cent as against first reports of 5 per cent.

It is thus apparent that while world stocks of sugar are still large the burden of continued excess production overhanging the market has been reduced in large measure and it is possible to take a more constructive view of the future. Expectations, however, should be tempered with the realization that as shown in the table European beet sugar production is still below pre-war levels, and as the cultivation of the beet has always been an essential part of the agricultural rotation in Europe, it is probably due to come back under the protection where necessary of subsidies and tariffs. While under present prices no increase is contemplated outside possibly of Russia, it is probable that recovery would be further stimulated by any substantial improvement in prices.

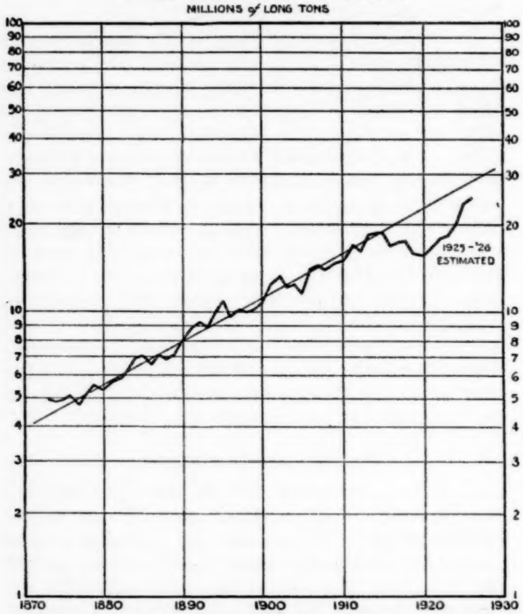
Outlook for Consumption

A factor, however, which may perhaps be determining is the rapid growth of sugar consumption. According to Lamborn and Company, leading sugar authorities, world consumption for the crop year 1924-25 increased 14 per cent over the previous year, a gain which if repeated during the current year would undoubtedly go far towards restoring the balance between production and consumption. It should be noted, however, that these figures are not really the figures of consumption but of distribution, and we have no means of knowing how large a part of this sugar disappearance was due to actual consumption. Much of the increase in sugar meltings last year was due to heavy meltings in the last quarter following the break in prices and it is hardly possible that all of this went into immediate consumption. Further evidence that part of the increase reflected stocking up somewhere along the channels of distribution appears from the statistics of meltings in this country since January 1 and the movement of sugar to consuming countries which has fallen somewhat behind that for the same period of last year.

The fact, however, that the large crops of preceding years were absorbed shows that consumption has been picking up under the stimulus of lower prices. Working always in favor of a restoration of the balance is the normal annual growth in the world's sugar requirements which over a long period of years has been shown to average about 3½ per cent. The diagram on the next page comparing world production since 1870 shows that had there been no war and sugar production had

continued at the pre-war rate, the output by 1925 would have reached about 27 million tons, as compared with an actual production in that year of less than 24 million.

WORLD PRODUCTION OF SUGAR
MILLIONS of LONG TONS



Viewed thus broadly the figures clearly show that the industry is suffering not so much from over-expansion as from the effect of crowding too much restoration of the lost growth of the war years into a few years at the end of the period. Not until 1923 did world production get back near the pre-war levels and between then and 1925 it increased 30 per cent. If we assume that the world will continue to increase its sugar requirements at the pre-war rate—and it is more probable that the rate temporarily may be higher than this under the stimulation of low prices—we have every reason for confidence that it is only a question of time before prices are re-established at remunerative levels.

The Federal Reserve Banks and Price Stabilization

Interesting testimony bearing on the powers and purposes of the Federal reserve banks has been brought out in the hearings that have been in progress for several months in Washington before the House Committee on Banking and Currency on the bill introduced by Congressman Strong of Kansas, directing the Federal reserve banks to use all their powers to promote price stability. From consideration of the original bill these hearings have broadened out into a general discussion of Federal reserve administration during the past few years and have afforded the friends of the Reserve system an opportunity for clearing away many false notions regarding it that have existed in the public mind. Besides officials of the Reserve banks themselves a number of leading economists have been called upon to testify and the report of the hearings when published promises to make an exceptionally valuable textbook, not alone on the Federal reserve system but on the general subject of central bank theory and practice as well.

Specifically the Strong bill proposes to amend section 14, paragraph (d) of the Federal Reserve Act now reading as follows:

"Every Federal reserve bank shall have power . . . (d) to establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by Federal reserve banks for each class of paper, which shall be fixed with a view of accommodating commerce and business."

to read—

"Every Federal reserve bank shall have power . . . (d) to establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by Federal reserve banks for each class of paper, which shall be fixed with a view of accommodating commerce and **promoting a stable price level for commodities in general. All the powers of the Federal reserve system shall be used for promoting stability of the price level.**"

With the purposes of the bill there will be widespread sympathy. The past ten years have shown conclusively the hardship and injustice wrought by a fluctuating price level. Even before the war the desirability of avoiding violent price upheavals was recognized, and a number of plans were advanced by which it was claimed that stabilization might be effected. Of these, perhaps the most familiar is that of Prof. Irving Fisher of Yale University, which contemplates altering from time to time the amount of gold in the dollar so as to maintain its value constant with that of a "market basket" of commodities such as the dollar is accustomed to buy. Thus the subject of stabilization is by no means new. Bankers and economists have been thinking about it for a long time, but granting that absolute stabilization is desirable (and not everyone is willing to admit that it is) most students of the problem have never been convinced that it could be put into practical operation.

And now comes the Strong bill proposing to put the problem of price stabilization up to the Reserve banks. To those interested in the welfare of the System this looks very much like saddling it with an impossible job, and one that might easily involve it in serious controversies.

Governor Strong's Testimony

Testifying on the bill before the House Committee, Governor Benjamin Strong of the New York Federal Reserve Bank, expressed no hostility to its purpose, but indicated his doubts

that it would accomplish the stabilization sought. He pointed out that the bill adds no new powers to the Reserve banks, while it charges them with a duty which on occasions may be beyond their power of performance. There is good reason to believe that the amendments, if adopted, would be interpreted not as a requirement calling merely for the best efforts of the Reserve banks to maintain stability but as a mandate upon which they would be judged by success or failure. Moreover, regardless of the fact that the bill specifically states that the price level referred to is the general price level and not that of any particular commodity, it is highly probable that the public which is not accustomed to thinking in terms of general prices would make the application to individual commodities and thus place the Reserve banks in the attitude of price fixing bodies, a position which would be well nigh fatal to them or to any other body similarly placed. Those who recall how the Reserve banks were made the scapegoat of most of the troubles incurred in the inevitable deflation that swept over the entire world after the war would regret the adoption of any legislation which would lay them open to further criticism for occurrences over which they could have but limited control.

Assuming that the Reserve banks had the power to regulate prices, which they have not, there would still be a good many practical reasons why it might be unwise to entrust so far reaching a power to any body of fallible men. Commenting on this phase of the question before the Committee, Governor Strong said:

> Of course the assumption of powers by the Federal reserve system of great magnitude in the control of prices ought to be considered not alone from the standpoint of economics, but from the standpoint of human nature to some extent. If it is assumed that the Federal reserve system has the power to raise or lower the price level by some automatic method, by some magical mathematical formula, what safeguards are we going to introduce against ignorance, stupidity, and bad judgment in the exercise of this power? How are we to deal with the problem of divided counsels in the system, where no action is possible because of difference of opinion? Is it possible to guard against the misuse of these powers for selfish or even improper purposes, of even political objects if you please?
>
> Then there is another possibility that has always struck me as inherent in any recognition of a power resting anywhere to regulate prices, and that is the everlasting contest that takes place with all humanity between the producer and the consumer. For instance, take the laboring man. When he is working at the factory during the day, he is a believer in advancing prices. He thinks they will aid him in giving him constant employment at good wages. He goes home, and his character changes. He is a consumer then, and he is liable to complain about the amount of rent he has to pay, or his wife is complaining about the cost of sugar, and his whole attitude toward the regulation of prices changes. It seems to me that if the Federal reserve system is recognized as a price regulator it is going to be somewhat in the position of the poor man who tried to stop a fight between the Irishman and his wife. They both turned on him.

Other Probable Difficulties

There are plenty of other difficulties one might suggest to those who would charge the Reserve banks with price stabilization. In the latter half of 1924 there was a substantial rise in the general level of wholesale prices, due almost entirely to the recovery in prices of farm products from the depressed levels that had existed from 1921 to the great distress of the agricultural community. Should the Reserve banks in the interests of stabilization have tried to prevent this, and what would have been the attitude of the agricultural bloc in Congress if they had? Just now prices are falling, due in part to the general decline of world prices, and it is pertinent to ask, as did Governor Norris of the Philadelphia Federal Reserve Bank before the Committee, what would happen to our competitive export trade if our prices should be artificially stabilized while those abroad continued to decline.

Changes in the price level are often the reflection of the movements of a few important commodities, such as grain and cotton, due to variations in crop yields or other causes. What are the Reserve banks to do in such cases? A rise in the price of grain may be offset by a fall in some other commodity and the average still be stabilized, but how are the Reserve banks to determine in advance which commodities will be affected by their credit policies? Carl Snyder, Statistician of the New York Federal Reserve Bank, in his testimony before the Committee, pointed out that efforts to stabilize certain commodities, farm products for example, might have results quite different from those originally intended. It is conceivable, for instance, that an effort to check a decline in the general price level caused by declining farm products by a policy of easy money might simply result in advancing the prices of commodities which the farmers have to buy while prices of commodities which the farmer sells, being fixed by the world level, would be unaffected, and the farmer thus left in a worse position than before.

Always it has to be remembered that the Reserve banks can have influence only on the aggregate amount of credit in use and that it is the member banks that determine how it shall be used. This is the fact that seems to have been overlooked by the Commercial and Financial Chronicle and certain others who criticize the Reserve banks for not taking more decisive action against the rise in stock prices last Fall. At that time the seasonal movement of agricultural commodities was under way and prices of grain were falling, and there was no way by which the Reserve banks could make certain that such restrictive action as they might take would not affect the com-

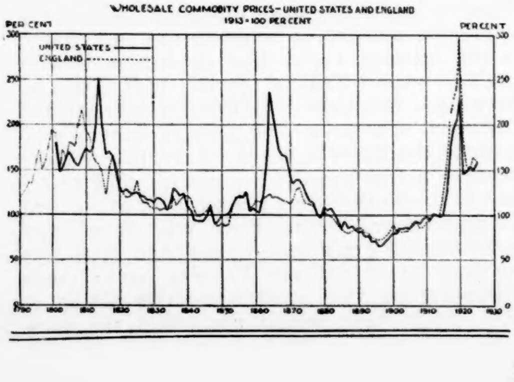
modity markets as much or even more than the stock market.

Federal Reserve Powers Misunderstood

The advocates of the bill may protest that they realize the Federal reserve banks operate under limitations as regards absolute price stabilization and only wish to have it understood that these banks should exercise such influence in that direction as they are able. It is doubtful, however, whether the public would appreciate this distinction. There is constantly apparent a widespread misunderstanding of the limitations on Federal reserve powers and this is at the bottom of much of the criticism to which the System has been subjected. In part this misunderstanding has been the fault of the friends of the System, who in their desire to have the country appreciate the services it can and has rendered, have led people to expect more of it than it was ever intended to deliver. No one familiar with the subject ever expected that the Reserve banks would eliminate the ups and downs of business or iron out the price fluctuations that go with them. Yet there are many people who still believe that the Reserve banks have some magical control over prices, and the writing of this bill into the law would tend to confirm this erroneous impression, thus storing up trouble for the Reserve banks against the first time that price movements were not to everybody's liking.

The Experience of European Countries

The experience of European countries has not shown that a central bank system is any guarantee of price stability. Central banking has been practiced in England for a great many years, yet the comparison of price movements in Great Britain and the United States over a period of 100 years, shown in the accompanying diagram, indicates that with the exception of our Civil War period when we were on a paper basis, British prices have not been noticeably steadier than our own. The presence of a central bank in Great Britain did not prevent British prices from falling in company with American prices in the decades of the 70's, 80's and 90's, nor from rising gradually following the increased production of gold from the African mines after 1900. These broad swings of prices are in response to forces over which central banks can have little control. As for the minor fluctuations in prices that come with the ordinary rise and fall in the tide of business, the best guarantee that the world can have of stability is the speedy resumption of the gold standard in all countries. The free movement of gold is a regulator of prices that works semi-automatically to maintain stability of prices throughout the world.



Farm Relief Legislation

Congress at this writing continues in a quandary over agricultural legislation. The Haugen bill, which proposed to set up Government machinery for disposing of farm surpluses in the export trade without affecting home prices and which provided for a fund of $175,000,000 from the Treasury to put the plan into operation, was defeated in the House on May 21 by a vote of 212 to 167. The Tincher and Aswell bills, which along with the Haugen bill had been recommended favorably by the House Agricultural Committee, were withdrawn. Just how the situation is to be patched up this session, if at all, if not yet clear. Representative Tincher has declared his intention of calling up his bill again, and Representative Aswell has already reintroduced his bill, modified, however, to the extent that it now includes provision for a large loan fund from the Treasury, to be used in promoting cooperative marketing which has been one of the features of the Tincher bill. Thus far at least no provision has been made in the House program for considering these bills. In the Senate, however, the corn belt forces have served notice of their intention to push the bill passed by the House January 26 providing for the creation of a division of cooperative marketing in the Department of Agriculture, amended to include the essential principles of the Haugen bill which had met defeat in the House.

As the Senate bill now stands, it would set up a Federal Farm Board which would administer a fund of $250,000,000 to be appropriated from the Treasury. This board would study the markets and where a surplus over and above domestic requirements was found to exist in certain basic agricultural commodities, namely, cotton, wheat, corn, cattle, and swine, or any food product of the last four, except milk and its products (in the case of cotton the requirement is a surplus above the needs of orderly marketing), this board would have power to assess and collect a so-called

equalization fee which could be paid out to cooperatives and others who export those products and sell them at a loss compared with prices ruling in the home market. By this plan, so it is contended by advocates of the bill, producers will be able to get rid of their surpluses without disturbing prices in the home market.

Of all these farm "relief" bills that are or have been before Congress, the principles involved in the Haugen bill and the Senate bill sponsored by Senator McNary, are the most objectionable. Both bills would establish what amounts to a Treasury subsidy on certain agricultural products and would involve the Government in price fixing. This country should consider carefully before it embarks on any plan of setting up a Government export corporation to sell foodstuffs to workers in European countries at lower prices than to our own workers at home. Moreover, such artificial stabilization would prove harmful to agriculture itself, because it would tend to stimulate the continued production of surpluses and thus aggravate the very conditions it was meant to remedy.

Considerably less objectionable is the Tincher bill, which provides for the establishment of a Federal Farm Advisory Board and Farmers Marketing Commission to aid in cooperative marketing of farm products. While the bill provides for an appropriation of $100,000,000 by the Government to be used as a revolving fund from which loans might be made to cooperative organizations, the price fixing feature is eliminated, and the bill has been declared acceptable to the Administration. The plan, however, is elaborate and costly. Least objectionable of all the bills was the original Aswell-Curtis bill, which provided for a Government appropriation of only $10,000,000 and was simply Government aid in promoting cooperative organizations. This bill, however, was not generally regarded as radical enough, and was usually counted out of the running; it has since been remodeled more along the lines of the Tincher bill, with a provision calling for an appropriation of $140,000,000 from the Treasury.

Proposed Legislation Unnecessary

All of these measures, however, if not definitely harmful are at least unnecessary, as the difficulties against which agriculture has been contending cannot be corrected by price fixing or further extension of agricultural credit.

At the bottom of the farm troubles is the fact that production of farm products was overstimulated during the war. New areas were brought under cultivation, and prices of old lands rose to levels which were far out of line with anything that could be sustained once the war shortage in foodstuffs was brought to an end by the return of the soldiers to the fields of Europe. Farmers saddled themselves up with capital charges, based on these inflated land values, which now they have difficulty in meeting since farm products have returned to more normal levels. As for credit facilities, never before has the farmer had so many agencies at his disposal. What with the Federal and joint stock land banks, and intermediate credit banks, and the facilities of the Federal Reserve Banks for the purchase or discount of agricultural paper, the farmer should have been cured long ago if lack of adequate credit were the basis of his ills.

It is, of course, true that the farmer has been at a serious disadvantage since 1920 by reason of the greater fall in prices of his products as compared with the prices of the manufactured goods which he has to buy. These conditions, however, are temporary and are already in the process of correction. They are, nevertheless, being made the basis of much loose talk about the "incurable ills" of the farmer. Figures are cited showing farm income as making unfavorable comparisons with other industries, but usually nothing is said in such comments to bring out the chief incentive to the settlement of our vacant lands, namely, the constant rise of land values throughout the history of the country. Within a lifetime we have seen the prairie lands of Iowa go from $3 and $4 per acre to $200 per acre. These gains are not shown by the annual returns, but they have been a factor in the settlement of the lands, and of course in the increase of production and in the prices of farm products.

Attention is also frequently called to the "drift of people from the farms" and to the declining percentage of farm acreage per capita as though these were alarming symptoms, such comment overlooking the fact that the farmer, like the business man, has been improving his methods of production and is getting a larger per capita output than before. Moreover, all this represents no more than a natural change from a country in which agriculture was originally the dominant industry to one of diversified industries, a normal and desirable change,—and of course all to the advantage of agriculture. It is getting a constantly larger home market, while increased agricultural production now must come largely by more intensive farming, and the bringing into use of the less productive lands which were passed over at first,—lands requiring large expenditures such as clearing, drainage, irrigation, etc., to fit them for cultivation.